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Colombia

Coffee Semi-annual

Production Hits Levels Not Seen Since the Early 1990s

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Report Highlights:

Colombian coffee production exceeded expectations as *El Niño* weather impacts were minimal. Post is revising projections from 12.5 to 13.3 million bags (1 bag = 60 kilograms unless otherwise noted) green bean equivalent (GBE) in marketing year (MY) 2014/15. Despite indications that *El Niño* drought conditions may worsen in 2016, the negative impact on production could be marginal. Thus, Post forecast for MY 2015/16 is revised upward from 12.7 to 13.4 million bags GBE.

Executive Summary:

Post revised estimates for Colombian coffee production are up from 12.5 to 13.3 million bags GBE in MY 2014/15 (October through September). Post revised forecast for MY 2015/16 is up from 12.7 to 13.4 million bags GBE as production remains strong given minimal impacts of drought from the *El Niño* weather phenomena. The coffee rust resistant variety replanting program has reached close to 70% of the total area planted in Colombia. The National Federation of Coffee Growers of Colombia (FEDECAFE) estimates that average coffee productivity has increased to 15 bags per hectare from 10 bags per hectare five years ago. This is a direct result of the replanting program and a reduction in the average age of coffee trees from 15 to 7 years. The rust resistant variety replanting program and normal weather conditions have helped maintain strong productivity.

In MY 2014/15, new Post estimates are exports will reach 12.6 million bags GBE, up from the previous estimate of 11.8 million bags GBE. Revised MY 2015/16 exports are forecast up from 11.7 to 12.2 million bags GBE, but less than MY 2014/15 as a result of lower beginning stocks.

Commodities:

Coffee, Green

Production:

Colombia coffee production is hitting record levels not seen since the early 1990's as a result of the highly successful replanting program with coffee rust resistant varieties and good weather. Post revised estimates for Colombian coffee production are up from 12.5 to 13.3 million bags GBE in MY 2014/15. The new Post forecast for MY 2015/16 is up from 12.7 to 13.4 million bags GBE as production remains strong despite predicted impacts of drought from *El Niño*. Current production exceeds historical averages of 12 million bags GBE signaling a complete turnaround of the devastating impacts of coffee rust from 2008-2012. The last marketing year with production exceeding 12 million bags GBE was in 1994. Even though the projected severe drought conditions from the *El Niño* weather phenomena did not materialize, coffee farmers and government officials remain cautious and continue to monitor weather pattern shifts. However, mild drought impacts on coffee production before the April to June "mitaca" harvest could be serendipitous, resulting in less leaf growth and more cherries. Also, drought conditions are not conducive to the spread of coffee rust and would mitigate the disease's negative impact on production. Nevertheless, prolonged, severe drought would be devastating and remains a concern. The table below illustrates the production recovery from MY 2008/09 to MY 2014/15 by month and as a total.

MONTH	MY 2008/09 (1,000 bags)	MY 2009/10 (1,000 bags)	MY 2010/11 (1,000 bags)	MY 2011/12 (1,000 bags)	MY 2012/13 (1,000 bags)	MY 2013/14 (1,000 bags)	MY 2014/15 (1,000 bags)
OCT	939	544	807	656	653	1,058	1,101
NOV	933	760	979	845	770	1,113	1,115
DEC	1,105	821	1,164	735	904	1,115	1,086
JAN	876	515	908	535	877	1011	1088
FEB	868	648	764	571	625	874	1,029
MAR	765	629	779	576	617	828	800
APR	345	647	523	580	970	832	924
MAY	702	822	673	689	937	1,050	1,165
JUN	685	780	471	714	913	944	1,240
JUL	582	787	530	668	1,031	1,236	1,463

AUG	397	615	466	565	770	1,151	1,264
SEP	467	530	459	519	860	912	1,058
Total	8,664	8,098	8,523	7,653	9,927	12,124	13,333

Source: FEDECAFE

The table below illustrates the production recovery with the annual variability in total production year-on-year, highlighting the turnaround in MY 2012/13.

MY	Production	Annual Variability %
2009/10	8,098	-6.5%
2010/11	8,523	5.2%
2011/12	7,653	-10.2%
2012/13	9,927	29.7%
2013/14	12,124	22.1%
2014/15	13,333	10.0%

Source: FEDECAFE

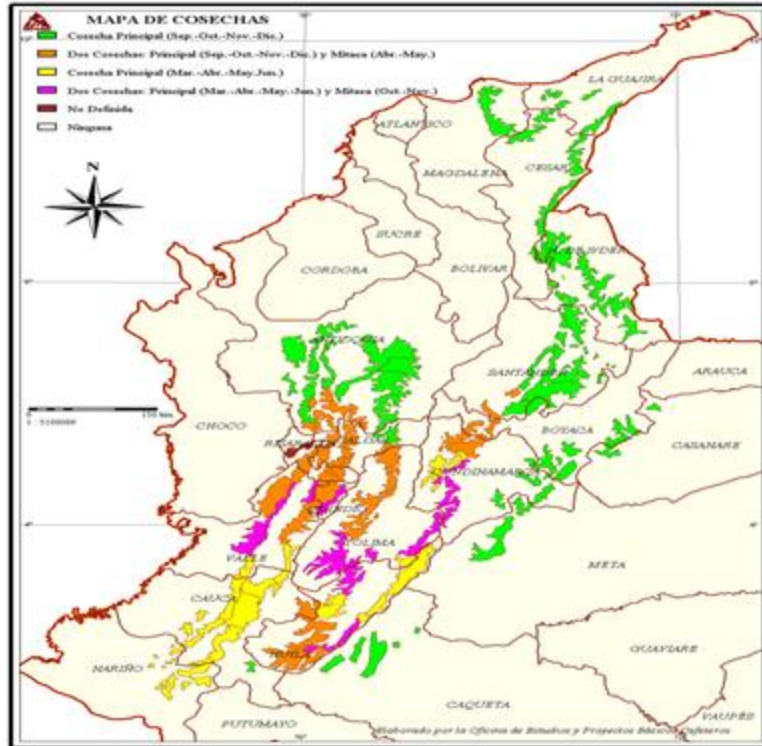
Despite favorable weather conditions supporting the production recovery, a shortage of agricultural labor and a higher minimum wage have increased production costs. Less farmworkers in the field detrimentally impacts production and control of insect pests, such as the coffee cherry borer.

Farmworker labor to conduct field observation and clearing the soil of fallen cherries are critical to managing borer outbreaks. Borer infestation levels are less than 5% of planted area but indications are that farm infestations are reaching 10% in the central and Antioquia region of the Colombia. The borer detrimentally impacts coffee grading and cupping quality resulting in price discounts.

Rising input costs for field workers, fertilizer and insect pest controls, combined with low prices, have effectively squeezed margins to the point of unprofitability for many coffee growers. Labor costs had accounted for about 40% of the cost of production; however, the agricultural labor shortage and a higher minimum wage have increased that share to upwards of 60% in 2015.

There are two peak harvest periods during the calendar year. The main harvest period, from October to December, produces nearly 60 percent of total production. The second harvest period is the April to June “mitaca” crop, primarily occurring in the central coffee region of Colombia. Approximately 95 percent of Colombia’s coffee growers farm on less than 5 hectares of land. Small farmers with less than 5 hectares of land are responsible for approximately 69 percent of coffee production in Colombia.

The map below illustrates the coffee producing regions of Colombia. The geography and topography of Colombia are unique with three mountain ranges that trifurcate the country from north to south, creating multiple micro-climates and ideal conditions for coffee production. Moreover, Colombia’s proximity to the equator and ample photoperiod support harvesting coffee almost year-round.



Source: FEDECAFE

Consumption:

Post estimates for Colombian coffee consumption for MY 2014/15 and MY 2015/16 remain unchanged at 1.4 million bags GBE. Local coffee consumption is driven by an increasing number of Juan Valdez coffee shops or cafes owned by a private consortium associated with FEDECAFE. The Juan Valdez cafes offer a variety of coffee and espresso drinks. Other companies with a presence in this market include Illy and OMA. The mega-coffee retailer Starbucks started operations in Colombia in 2014. The expectation is that Starbucks will stimulate competition among the coffee beverage outlets and increase overall consumption. Coffee shops in Colombia are primarily oriented towards satisfying the coffee beverage preferences of young professionals. Although processed and consumer-oriented high quality coffee sales have increased in recent years, the Colombian consumption of green coffee remains marginal.

Trade:

In MY 2014/15, new Post estimates are exports will reach 12.6 million bags GBE, up from the previous estimate of 11.8 million bags GBE. Revised MY 2015/16 exports are forecast up from 11.7 to 12.2 million bags GBE, but less than MY 2014/15 as a result of lower beginning stocks. Colombian coffee exports have been expanding significantly since 2013, paralleling the recovery in coffee production. The United States is the major single destination for Colombian coffee, importing approximately 40% of the value of all Colombian coffee exports, followed by the European Union, Japan, and Canada.

As part of a quality differentiation and improvement policy, Colombia is increasingly exporting high quality coffee that meets the cupping and grading expectations for certifications to capture more value added. Value added, specialty coffee now comprises close to 40 percent of Colombia's total coffee

exports. Colombian specialty coffee is booming with certified and organic coffees receiving significant price premiums, typically higher than traditional coffee exports. Coffee denomination of origin labels from specific regions of Colombia, such as the southern growing regions of Huila, Cauca and Nariño, are gaining more international recognition for the cupping quality and further value added. Colombian specialty coffee growers produce coffee under numerous international programs that provide fair trade and organic certifications such as USDA Organic, UTZ Certified, 4C, and Rainforest Alliance. Protocols vary between growers and intermediaries, including FEDECAFE, to maintain the levels of quality that will meet certification standards and buyer/consumer expectations abroad.

The table below illustrates the guaranteed floor price in Colombian Pesos (COP) paid per 125 kilogram bag to growers by FEDECAFE.

MONTH	MY 2008/09 COP	MY 2009/10 COP	MY 2010/11 COP	MY 2011/12 COP	MY 2012/13 COP	MY 2013/14 COP	MY 2014/15 COP
OCT	511,422	566,875	748,911	907,560	591,908	803,060	406,451
NOV	516,169	592,286	790,983	923,289	538,125	773,306	384,411
DEC	505,071	673,408	899,674	899,176	520,065	783,418	400,869
JAN	569,568	715,339	944,417	873,847	526,810	771,159	430,641
FEB	638,681	680,406	1,022,440	826,339	503,831	723,300	616,438
MAR	658,227	688,282	1,078,522	726,966	512,054	683,972	763,613
APR	762,210	660,369	1,071,154	702,060	514,813	686,381	795,097
MAY	834,101	676,714	1,023,827	669,908	510,315	631,565	745,511
JUN	670,841	749,324	963,205	592,024	477,288	671,341	663,542
JUL	641,207	808,966	931,881	648,540	468,717	679,625	646,299
AUG	674,905	832,034	962,550	612,196	452,051	776,363	715,083
SEP	614,642	801,784	976,091	624,363	435,839	719,756	718,466
Average	633,087	703,816	951,138	750,522	504,318	725,271	607,202

Source: FEDECAFE

The table below illustrates the annual variability in prices year-on-year paid per 125 kilogram bag.

MY	Price COP	Annual Variability %
2009/10	703,816	11.2%
2010/11	951,138	35.1%
2011/12	750,522	-21.1%
2012/13	504,318	-32.8%
2013/14	607,202	20.4%
2014/15	725,271	19.4%

Source: FEDECAFE

Stocks:

There exists no GOC or FEDECAFE policy to support large scale carry-over stocks of coffee. The new Post estimate for MY 2014/15 beginning stocks totaled 966,000 bags GBE, up slightly from 961,000 bags. In MY 2015/16 beginning stocks will fall to 536,000 bags GBE as exports were up from the previous year due to a weaker peso and improved competitiveness in international markets. In MY 2015/16 ending stocks will fall to 311,000 bags GBE due to the fact that there is no policy incentive or infrastructure to maintain long term stocks and the weaker Colombian peso offers economic incentives to trade.

Policy:

The coffee sector has historically played a large role in Colombia's economic success, providing a livelihood for an estimated 600,000 producers and their families, providing FEDECAFE with significant political influence. Most growers are members of FEDECAFE and take advantage of the organization's educational programs, technical training, and sales support. FEDECAFE purchases coffee from its members at an internal price which parallels the international commodity markets less some administrative and internal transport expenses. The FEDECAFE price acts as a floor price should farmers not procure higher price premiums for specialty coffee through other buyers and intermediaries.

The Producer Income Support (PIC) subsidy program that began on March 18, 2013, was cancelled for the latter half of 2014 as a result of prices above the PIC trigger price of COP 700,000 per 125 kilogram bag. In 2015, the PIC program remained suspended as prices at the beginning of the "mitaca" harvest were above the PIC trigger price. Whenever prices dip below the PIC trigger price, coffee growers clamor for reinstatement and threaten protest. To date, the government continues to suspend the PIC program.

Other GOC and FEDECAFE programs to assist growers have focused on controlling coffee rust, which successfully restored coffee production to an average of 12 million bags GBE. FEDECAFE manages low interest loan programs for the costs of replanting; however, loans are allegedly only offered for planting the rust resistant *Castillo* variety. Although *Castillo* variety has been effective to control the coffee rust, there is some discontent with growers that would like access to loans to plant other varieties, given issues with the *Castillo* yields and cupping quality. The GOC also offers financial assistance for all agricultural commodities through the Rural Funding Incentive which provides loans with discounted payback terms.

Production, Supply and Demand Data Statistics:

Coffee, Green	2013/2014		2014/2015			2015/2016		
	Market Year Begin: Oct-13		Market Year Begin: Oct-14			Market Year Begin: Oct-15		
Colombia	USDA Official	Old Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Area Planted	780	780	780	780	780	780	780	780
Area Harvested	640	640	640	640	640	640	640	640
Bearing Trees	2900	2900	2900	2900	2900	2900	2900	2900
Non-Bearing Trees	1070	1070	1070	1070	1070	1070	1070	1070
Total Tree Population	3970	3970	3970	3970	3970	3970	3970	3970
Beginning Stocks	771	249	966	961	966	966	536	536
Arabica Production	12075	9000	12500	12500	13300	12500	12700	13400
Robusta Production	0	0	0	0	0	0	0	0
Other Production	0	0	0	0	0	0	0	0
Total Production	12075	9000	12500	12500	13300	12500	12700	13400
Bean Imports	355	1000	200	300	200	200	300	300
Roast & Ground Imports	0	40	0	0	0	0	0	0
Soluble Imports	100	60	50	50	50	50	50	50
Total Imports	455	1100	250	350	250	250	350	350
Total Supply	13301	10349	13716	13811	14516	13716	13586	14286
Bean Exports	10300	8100	11000	11049	11693	11000	10869	11429
Rst-Grnd Exp.	75	25	75	75	75	75	75	0
Soluble Exports	660	780	700	700	800	700	800	800
Total Exports	11035	8905	11775	11824	12568	11775	11744	12229
Rst,Ground Dom. Consum	1000	900	1105	1105	1105	1105	1100	1105
Soluble Dom. Cons.	300	300	300	300	300	300	300	300
Domestic Use	1300	1200	1405	1405	1405	1405	1400	1405
Ending Stocks	966	244	536	536	536	536	311	311
Total Distribution	13301	10349	13716	13811	14516	13716	13586	14286
1000 HA, MILLION TREES, 1000 60 KG BAGS								